

July 17, 2014

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## U.S. Imposes Limited Sanctions on Long-Term Debt and Equity Transactions for Targeted Russian Energy and Financial Companies; Other Developments

### Overview

- On July 16, 2014, the United States imposed limited sanctions restricting new long-term debt and equity transactions for four Russian financial and energy companies: (1) OAO Gazprombank; (2) Vnesheconombank (VEB); (3) OAO Novatek; and (4) Rosneft Oil Company.
- Other transactions with these four companies that are not related to new long-term debt or equity transactions are **NOT** prohibited. These entities are **NOT** Specially Designated Nationals ("SDNs"), and the Treasury Department has indicated that it "has not blocked the property or interests in property of these companies, nor prohibited transactions with them beyond these specific restrictions."
- The U.S. has identified the Russian financial and energy sectors as sanctions targets pursuant to Executive Order 13662. This action does not mean that all entities operating within those sectors are automatically sanctioned; instead, it authorizes the Office of Foreign Assets Control ("OFAC") to impose sanctions on any entity within those sectors. However, no sanctions apply unless and until an additional designation is made.
- Pursuant to this new authority, the two Russian financial institutions and two Russian energy companies have been designated for limited sanctions prohibiting long-term debt and equity transactions within U.S. jurisdiction (including U.S. dollar financing):
  - For the financial institutions, Gazprombank and VEB, new debt transactions with a maturity of greater than 90 days ("long-term-debt") and new equity transactions within U.S. jurisdiction are prohibited, meaning as a practical matter no new long-term debt or equity transactions in U.S. dollars are possible and U.S. institutions and investors cannot participate in, or provide services in support of, such transactions in any currency.
  - For Novatek and Rosneft, only long-term debt is restricted; equity transactions are unaffected.
  - These restrictions extend to entities 50% or more owned by the sanctioned companies and to financing their assets.
  - Trading in, servicing of, or payment under existing long-term debt or equity issued before July 16, 2014, is not prohibited for any of the above entities.
  - OFAC has also issued General License 1, which explicitly permits transactions involving derivative products whose value is linked to underlying debt or equity assets prohibited under the new sanctions.

- Additionally, the United States named a number of Russian defense firms as SDNs pursuant to Executive Order 13661, and as a result all transactions with these entities involving U.S. persons, U.S. dollar transactions clearing through the United States, or other elements within U.S. jurisdiction are now prohibited. The Russian defense sector was not designated pursuant to Executive Order 13662.
- A number of individuals and Ukrainian separatist groups have also been listed as SDNs.

### Sectoral Sanctions

As detailed in Cleary Gottlieb's [alert memorandum of March 21, 2014](#), on March 20, 2014, President Obama issued Executive Order 13662, which authorized sanctions against persons or entities determined to be a part of sectors of the Russian Federation economy that are identified for sanctions. The Executive Order sets out a two-step process. First, a sector must be identified for potential sanctions, and second, entities within that sector can be designated for particular sanctions. However, no sector or entity was designated at the time of the Executive Order.

On July 16, U.S. Treasury Secretary Lew issued two Directives pursuant to Executive Order 13662 and identified the Russian financial and energy sectors for sanctions pursuant to the Executive Order. This action does not sanction all entities operating within or prohibit all transactions involving those sectors; rather, it provides OFAC with the authority to sanction any entity within those sectors. Pursuant to that authority, OFAC has designated two financial institutions, Gazprombank and VEB, and two energy companies, Novatek and Rosneft. These entities are now listed on OFAC's new Sectoral Sanctions Identifications List ("SSI List").

Directive 1 of Executive Order 13662, which targets the financial sector and currently applies to Gazprombank and VEB, prohibits "transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity or new equity for these persons [designated within the Russian financial sector], their property, or their interests in property. **All other transactions with these persons or involving any property in which one or more of these persons has an interest are permitted.**" (Emphasis added.) As a result, no new U.S. dollar long-term debt or equity transactions financing these entities are possible, and U.S. institutions, investors, and advisors cannot participate in, or provide services in support of, such transactions in any currency.<sup>1</sup> In addition, the restriction on providing "financing for...or new equity for...their property or interests in property" extends the prohibition to 1) entities 50% or more owned by the sanctioned companies, directly or indirectly, and 2) non-recourse asset-backed financing involving assets of those companies. However, the emphasized language above makes it clear that other transactions, including shorter-term debt transactions, involving these entities are not prohibited, and OFAC guidance released simultaneously with the Directive specifically states that maintaining correspondent accounts and conducting dollar clearing transactions for these

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<sup>1</sup> OFAC guidance released today defines debt and equity quite broadly, as follows: "The term debt includes bonds, loans, extensions of credit, loan guarantees, letters of credit, drafts, bankers acceptances, discount notes or bills, or commercial paper. The term equity includes stocks, share issuances, depositary receipts, or any other evidence of title or ownership." The guidance also contains an explicit prohibition on the "provision of services in support of" prohibited long-term debt or equity issuances.

entities (so long as they do not involve prohibited long-term debt or equity transactions) remains permitted. Securities trades with the sanctioned companies are also permitted, so long as they do not involve or create prohibited new equity or long-term debt of the sanctioned companies.

Directive 2 of Executive Order 13662, which targets the energy sector and is applicable to Novatek and Rosneft, prohibits “transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity” for the designated entities, under similar conditions. Unlike the restrictions imposed on the designated financial institutions, equity transactions for entities designated within the energy sector are not prohibited. Again, “[a]ll other transactions with these persons or involving any property in which one or more of these persons has an interest are permitted.”

Dealing in long-term debt or equity of the sanctioned companies issued prior to July 16, 2014, is not prohibited under either Directive. Persons subject to U.S. jurisdiction are free to trade in or provide services relating to pre-existing debt or equity. However, the rollover of existing debt is not permitted if it results in a new maturity of greater than 90 days.

Finally, OFAC has issued General License 1, which explicitly permits transactions within U.S. jurisdiction involving derivative products whose value is linked to underlying debt or equity assets prohibited under Directive 1 or Directive 2 (though not transactions in the underlying assets themselves). OFAC has not provided further elaboration or guidance on the scope of this license; given the range and complexity of possible derivative transactions, it is possible that there will be further developments in this area.

Entities designated for inclusion in the SSI List are **NOT** SDNs subject to comprehensive restrictions on all transactions within U.S. jurisdiction, and the Treasury Department has indicated that it “has not blocked the property or interests in property of these companies, nor prohibited transactions with them beyond these specific restrictions.” Other than with respect to the prohibited long-term debt and equity transactions, transactions with these entities by U.S. persons or in U.S. dollars may proceed as usual.

In the future, OFAC now has authority to designate additional Russian financial institutions or energy companies, or to expand the sanctions against the named entities, but additional administrative action would be required.

#### Designation of Additional SDNs

Additionally, on July 16, the Treasury Department designated eight Russian defense firms as SDNs pursuant to Executive Order 13661, which authorizes sanctions against persons and entities operating within the Russian arms sector. As a result, all transactions with these entities involving U.S. persons, U.S. dollar clearing, or other actions within U.S. jurisdiction are now prohibited. The Russian defense sector was not designated pursuant to Executive Order 13662.

The following firms were designated as SDNs under Executive Order 13661:

Almaz-Antey

Federal State Unitary Enterprise State Research and Production Enterprise Bazalt  
JSC Concern Sozvezdie  
JSC MIC NPO Mashinostroyenia  
Kalashnikov Concern  
KBP Instrument Design Bureau  
Radio-Electronic Technologies  
Uralvagonzavod

The Treasury Department also designated a number of individuals and Ukrainian separatist groups as SDNs, under the authority provided by Executive Orders 13660 and 13661 to sanction Russian government officials individuals and entities that threaten the “peace, security, stability, sovereignty, or territorial integrity of Ukraine” or “operate in the arms or related materiel sector in the Russian Federation.” A list of individuals and entities sanctioned pursuant to these orders may be found in the Appendix below.

### Conclusion

The new sectoral sanctions impose limited restrictions on four Russian energy and financial firms, prohibiting long-term debt or equity transactions within U.S. jurisdiction. These entities are not SDNs, and no other transactions with these entities are prohibited. Additionally, OFAC now has authority to impose additional sanctions on Russian financial or energy firms, or to designate additional sectors, but no other restrictions apply unless and until they do so, and the sectoral sanctions adopted only affect companies that are specifically named.

The defense firms and other persons and entities added to the U.S. SDN list are subject to traditional, more comprehensive U.S. sanctions.

\* \* \*

Please feel free to raise any question you may have with any of your regular contacts at the Firm, or with [Paul Marquardt](#) in our Washington office regarding U.S. sanctions or with [Till Müller-Ibold](#) in our Brussels office or [Sunil Gadhia](#) in our London office regarding European sanctions.

## **Appendix**

### **U.S. Executive Orders**

March 6, 2014

[http://www.treasury.gov/resource-center/sanctions/Programs/Documents/ukraine\\_eo.pdf](http://www.treasury.gov/resource-center/sanctions/Programs/Documents/ukraine_eo.pdf)

March 16, 2014

[http://www.treasury.gov/resource-center/sanctions/Programs/Documents/ukraine\\_eo2.pdf](http://www.treasury.gov/resource-center/sanctions/Programs/Documents/ukraine_eo2.pdf)

March 20, 2014

[http://www.treasury.gov/resource-center/sanctions/Programs/Documents/ukraine\\_eo3.pdf](http://www.treasury.gov/resource-center/sanctions/Programs/Documents/ukraine_eo3.pdf)

Directives 1 and 2 under Executive Order 13662

[http://www.treasury.gov/resource-center/sanctions/Programs/Documents/eo\\_13662\\_directives.pdf](http://www.treasury.gov/resource-center/sanctions/Programs/Documents/eo_13662_directives.pdf)

### **Sectoral Sanctions**

Sectoral Sanctions List

<http://www.treasury.gov/ofac/downloads/ssi.pdf>

Sectoral Sanctions Designations of July 16, 2014

<http://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20140716.aspx>

Sectoral Sanctions General License 1

[http://www.treasury.gov/resource-center/sanctions/Programs/Documents/ukraine\\_gl1.pdf](http://www.treasury.gov/resource-center/sanctions/Programs/Documents/ukraine_gl1.pdf)

Sectoral Sanctions Frequently Asked Questions

[http://www.treasury.gov/resource-center/faqs/Sanctions/Pages/ques\\_index.aspx#sectoral](http://www.treasury.gov/resource-center/faqs/Sanctions/Pages/ques_index.aspx#sectoral)

### **U.S.-Sanctioned Individuals and Entities Designated July 16, 2014**

BESEDA, Sergey (a.k.a. BESEDA, Sergei; a.k.a. BESEDA, Sergei Orestovoch); DOB 1954; Commander of the Fifth Service of the FSB; Commander of the Service for Operational Information and International Communications of the FSB; FSB Colonel General; Colonel-General (individual) [UKRAINE2].

BORODAI, Aleksandr (a.k.a. BORODAI, Alexander); DOB 25 Jul 1972; nationality Russia (individual) [UKRAINE].

NEVEROV, Sergei Ivanovich (a.k.a. NEVEROV, Sergei; a.k.a. NEVEROV, Sergey); DOB 21

Dec 1961; POB Tashtagol, Russia; Deputy Chairman of the State Duma of the Russian Federation; Member of the State Duma Committee on Housing Policy and Housing and Communal Services (individual) [UKRAINE2].

SAVELYEV, Oleg Genrikhovich; DOB 27 Oct 1965; POB St. Petersburg, Russia; Minister for Crimean Affairs (individual) [UKRAINE2].

SHCHEGOLEV, Igor (a.k.a. SHCHYOGOLEV, Igor Olegovich); DOB 10 Nov 1965; POB Vinnitsa, Ukraine; alt. POB Vinnytsia, Ukraine; Aide to the President of the Russian Federation (individual) [UKRAINE2].

DONETSK PEOPLE'S REPUBLIC, Donetsk Region, Ukraine [UKRAINE].

FEDERAL STATE UNITARY ENTERPRISE STATE RESEARCH AND PRODUCTION ENTERPRISE BAZALT (a.k.a. FEDERAL STATE UNITARY ENTERPRISE, STATE RESEARCH AND PRODUCTION ENTERPRISE BAZALT; a.k.a. FSUE SRPE BAZALT; a.k.a. STATE RESEARCH AND PRODUCTION ENTERPRISE BAZALT), 32 Velyaminovskaya, Moscow 105318, Russia; Website [www.bazalt.ru](http://www.bazalt.ru); Email Address [moscow@bazalt.ru](mailto:moscow@bazalt.ru) [UKRAINE2].

FEODOSIYA ENTERPRISE (a.k.a. FEODOSIA OIL PRODUCTS SUPPLY CO.; a.k.a. FEODOSIYA ENTERPRISE ON PROVIDING OIL PRODUCTS; a.k.a. FEODOSIYSKE COMPANY FOR THE OIL; a.k.a. THEODOSIYA OIL TERMINAL), Feodosiya, Geologicheskaya str. 2, Crimea 98107, Ukraine; Feodosia, Str. Geological 2, Crimea 98107, Ukraine [UKRAINE].

JOINT STOCK COMPANY CONCERN RADIO-ELECTRONIC TECHNOLOGIES (a.k.a. CONCERN RADIO-ELECTRONIC TECHNOLOGIES; a.k.a. "KRET"), 20/1 Korp. 1 ul. Goncharnaya, Moscow 109240, Russia; Website <http://www.kret.com>; Registration ID 1097746084666 [UKRAINE2].

JOINT STOCK COMPANY CONCERN SOZVEZDIE (a.k.a. JSC CONCERN SOZVEZDIE), 14 Plekhanovskaya Street, Voronezh, Russia; 14 ul. Plekhanovskaya, Voronezh, Voronezhskaya obl. 394018, Russia; Registration ID 1053600445337 [UKRAINE2].

JOINT STOCK COMPANY MILITARY-INDUSTRIAL CORPORATION NPO MASHINOSTROYENIA (a.k.a. JOINT STOCK COMPANY MILITARY INDUSTRIAL CONSORTIUM NPO MASHINOSTROYENIA; a.k.a. JSC MIC NPO MASHINOSTROYENIA; a.k.a. MIC NPO MASHINOSTROYENIA JSC; a.k.a. MIC NPO MASHINOSTROYENIYA JSC; a.k.a. MILITARY INDUSTRIAL CORPORATION NPO MASHINOSTROENIA OAO; a.k.a. OPEN JOINT STOCK COMPANY MILITARY INDUSTRIAL CORPORATION SCIENTIFIC AND PRODUCTION MACHINE BUILDING ASSOCIATION; a.k.a. VOENNO-PROMYSHLENNAYA KORPORATSIYA NAUCHNO-PROIZVODSTVENNOE OBEDINENIE MASHINOSTROENIYA OAO; a.k.a. VPK NPO MASHINOSTROENIYA), 33, Gagarina St., Reutov-town, Moscow Region 143966, Russia; 33 Gagarin Street, Reutov, Moscow Region 143966, Russia; 33 Gagarina ul., Reutov, Moskovskaya obl 143966, Russia; Website [www.npomash.ru](http://www.npomash.ru); Email Address [export@npomash.ru](mailto:export@npomash.ru); alt. Email Address [vpk@npomash.ru](mailto:vpk@npomash.ru); Registration ID 1075012001492 (Russia); Tax ID No. 5012039795 (Russia); Government Gazette Number

07501739 (Russia) [UKRAINE2].

JOINT-STOCK COMPANY CONCERN ALMAZ-ANTEY (a.k.a. ALMAZ-ANTEY CORP; a.k.a. ALMAZ-ANTEY DEFENSE CORPORATION; a.k.a. ALMAZ-ANTEY JSC; f.k.a. OTKRYTOE AKTSIONERNOE OBSHCHESTVO KONTSEKSN PVO ALMAZ ANTEI), 41 ul. Vereiskaya, Moscow 121471, Russia; Website [almaz-antey.ru](http://almaz-antey.ru); Email Address [antey@almaz-antey.ru](mailto:antey@almaz-antey.ru) [UKRAINE2].

KALASHNIKOV CONCERN (a.k.a. CONCERN KALASHNIKOV; a.k.a. IZHEVSKIY MASHINOSTROITEL'NYI ZAVOD OAO; f.k.a. IZHMASH R&D CENTER; f.k.a. JSC NPO IZHMASH; f.k.a. NPO IZHMASH OAO; a.k.a. OJSC CONCERN KALASHNIKOV; f.k.a. OJSC IZHMASH; f.k.a. SCIENTIFIC PRODUCTION ASSOCIATION IZHMASH JOINT STOCK COMPANY), 3, Derjabin Pr., Izhevsk, Udmurt Republic 426006, Russia; Registration ID 1111832003018 [UKRAINE2].

KONSTRUKTORSKOE BYURO PRIBOROSTROENIYA OTKRYTOE AKTSIONERNOE OBSHCHESTVO (a.k.a. INSTRUMENT DESIGN BUREAU; a.k.a. JSC KBP INSTRUMENT DESIGN BUREAU; a.k.a. KBP INSTRUMENT DESIGN BUREAU; a.k.a. KBP INSTRUMENT DESIGN BUREAU JOINT STOCK COMPANY; a.k.a. "KBP OAO"), 59 Shcheglovskaya Zaseka ul., Tula 300001, Russia; Website [www.kbptula.ru](http://www.kbptula.ru); Email Address [kbkedr@tula.net](mailto:kbkedr@tula.net); Registration ID 1117154036911 (Russia); Government Gazette Number 07515747 (Russia) [UKRAINE2].

LUHANSK PEOPLE'S REPUBLIC (a.k.a. LUGANSK PEOPLE'S REPUBLIC; a.k.a. PEOPLE'S REPUBLIC OF LUHANSK), Luhansk Region, Ukraine [UKRAINE].

URALVAGONZAVOD (a.k.a. NAUCHNO-PROIZVODSTVENNAYA KORPORATSIYA URALVAGONZAVOD OAO; a.k.a. NPK URALVAGONZAVOD; a.k.a. NPK URALVAGONZAVOD OAO; a.k.a. OJSC RESEARCH AND PRODUCTION CORPORATION URALVAGONZAVOD; a.k.a. RESEARCH AND PRODUCTION CORPORATION URALVAGONZAVOD; a.k.a. RESEARCH AND PRODUCTION CORPORATION URALVAGONZAVOD OAO; a.k.a. URALVAGONZAVOD CORPORATION; a.k.a. "UVZ"), 28, Vostochnoye shosse, Nizhni Tagil, Sverdlovsk region 622007, Russia; 28 Vostochnoe shosse, Nizhni Tagil, Sverdlovskaya oblast 622007, Russia; 40, Bolshaya Yakimanka Street, Moscow 119049, Russia; Vostochnoye Shosse, 28, Nizhny Tagil 622007, Russia; Website <http://www.uvz.ru/>; alt. Website <http://uralvagonzavod.com/>; Email Address [web@uvz.ru](mailto:web@uvz.ru) [UKRAINE2].



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